FISCAL NOTE

Bill #: SB0414 **Title:** Retirement incentive for teachers

Primary Sponsor: Gillan, K **Status:** As Introduced

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$9,617,000	$9,617,000
Revenue:		
Other	$35,620,000	$36,730,000
Net Impact on General Fund Balance:	($9,617,000)	($9,617,000)

☒ Significant Local Gov. Impact	☒ Technical Concerns
☒ Included in the Executive Budget	☐ Significant Long-Term Impacts
☐ Dedicated Revenue Form Attached	☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. SB 414 allows a school district to pay for retirement incentives from retirement fund reserves or any other fund available. Under current law, the operating reserve for the retirement fund is limited to 35 percent of the budget. The average retirement fund reserve in FY 2005 was 31.85 percent.
2. It is assumed all school districts will spend 50 percent of the reserves on retirement incentives in FY 2006 and FY 2007. School districts will ask the counties to increase their countywide retirement fund budgets and levy to replace the reserves each year. The county retirement funds are subsidized by the state through guaranteed tax base aid (GTB). The state share varies between 0 and 56 percent but averages about 27 percent.
3. The FY 2005 retirement budgets are projected to increase by 3 percent in FY 2006 and FY 2007 to match estimated increases in salary raises. The retirement budgets totaled $106.5 million in FY 2005. The estimated budget for FY 2006 is $109.7 million and $113.0 million in FY 2007.
4. The reserves to be replaced in FY 2006 are estimated at $109.7 x .35 x .5 = $19.2 million.
5. The reserves to be replaced in FY 2007 are estimated at $113.0 x .35 x .5 = $19.8 million.

6. The employer retirement contribution rates are as follows:

	Certified Staff	Classified Staff
Teachers' Rtmt	7.47 %	
PERS		6.90 %
FICA	6.20%	6.20%
Medicare	1.45%	1.45%
Unemployment	0.02%	0.02%
Totals	15.14%	14.57%

7. Section 19-20-716, MCA, provides teachers' retirement employees three options with termination pay. The most advantageous option to persons retiring with a retirement bonus is Option 1.

   (a) Option 1--The member may use the total termination pay in the calculation of the member's average final compensation. The member and the employer shall pay contributions to the retirement system as determined by the board to adequately compensate the system for the additional retirement benefit. The contributions must be made at the time of termination.

   Teachers' Retirement states the employer contribution on a $10,000 termination pay incentive under Option 1 would result in an average additional employer contribution of $9,450 for an effective rate of 95 percent.

8. It is assumed that 90 percent of retirements are TRS retirements.

Estimated cost to the State and County under Teachers' Retirement Termination Option 1
95% on Incentive Pay

	Replace Retirement Reserves	Calculation	Additional Contribution on Incentive	Total Cost	State Cost 27%	County Cost 73%
FY 06	$19,200,000	[109.7 million x 35% x 50%]	$16,420,000	$35,620,000	$9,617,000	$26,003,000
FY 07	$19,800,000	[112.9 million x 35% x 50%]	$16,930,000	$36,730,000	$9,917,000	$26,813,000

9. It is assumed that the maximum retirement incentive will average $15,000 plus benefits.
10. Teachers' Retirement estimates that there are 6,341 eligible retirees at December 31, 2004. The number of eligible school district retirees under PERS totals 153 retirees. There are no retirement options under PERS. The termination pay would be subject to normal contributions. Retiree data is not available by school district or by county.

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
Local Assistance – K-12 Schools	$9,617,000	$9,617,000
Funding of Expenditures:		
General Fund (01)	$9,617,000	$9,617,000

Revenues:		
Other- Pension Trust (09)	$35,620,000	$36,730,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	($9,617,000)	($9,617,000)
Other	35,620,000	36,730,000

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

School districts that elect to provide a retirement incentive to its employees must provide eligible employees with a payment equal to up two times the employee and employer contributions based on the individual's compensation. It is difficult to determine how many and which school districts will elect to participate. It is also difficult to determine how many employees of those school districts will choose the incentive or will be involuntarily terminated due to a reduction in force.

The county retirement levies across the state would increase substantially. The estimated increase in county levies is $26.0 million in FY 2006 and $26.8 million in FY 2007.

TECHNICAL NOTES:

Section 20-9-501, MCA, sets the retirement fund reserve at 35 percent. This fund is supported primarily with property taxes received in November and May. The traditional use of the reserves is to provide operating cash between tax collections. It is unusual to consider reserves as a funding source for expenditures.